

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND SCHEDULE OF FINDINGS
OF THE
CITY OF SERGEANT BLUFF, IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

**CITY OF SERGEANT BLUFF, IOWA
FOR THE YEAR ENDED JUNE 30, 2004
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sergeant Bluff's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, for the year ended June 30, 2004, the City of Sergeant Bluff adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2005 on our consideration of the City of Sergeant Bluff's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and 42 through 46 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sergeant Bluff's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sioux City, Iowa
January 13, 2005

King, Reinsch, Prosser & Co., L.L.P.

CITY OF SERGEANT BLUFF, IOWA

Management's Discussion and Analysis

The discussion and analysis of the City of Sergeant Bluff's financial performance for the year ended June 30, 2004 provides a narrative overview of its financial activities. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements, which follow.

Financial Highlights

- The City's assets of \$20 million are divided between Governmental Activities (\$11 million) and Business-Type Activities (\$9 million). Combined assets exceeded liabilities by \$14.5 million. Of this amount, \$4.3 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- At June 30, 2004, the City of Sergeant Bluff's governmental funds reported combined ending fund balances of \$1.7 million. Approximately 98 percent of this total amount, \$1.6 million is unreserved, and is available for spending at the government's discretion.
- The unreserved fund balance for the general fund, at the end of the current fiscal year was \$511,000. This represents 33 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Sergeant Bluff's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Sergeant Bluff's finances, in a manner similar to a private-sector business. The Statement of Net Assets is essentially a balance sheet that combines all funds on a government-wide basis. Changes in net assets over time may be an indicator of whether the City's financial position is improving or worsening.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event occurs, giving rise to the change regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sergeant Bluff that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Sergeant Bluff include general government, public safety, public works, economic development, and culture and recreation. The Business-Type Activities of the City include an electric, water, sewer, solid waste and storm water utility.

The government-wide financial statements can be found on pages 10-12, of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sergeant Bluff, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sergeant Bluff maintains 6 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* as supplementary information

The basic governmental fund financial statements can be found on pages 13-18 of this report.

Proprietary Funds. The City of Sergeant Bluff maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Solid Waste and Storm Water Utilities

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water, Sewer, Solid Waste and Storm Water Utilities as all are considered, or have been designated to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19-26 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties external to the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Sergeant Bluff's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements are reported in a separate *statement of fiduciary net assets*.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-41 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land,

buildings and improvements, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the year ended June 30, 2004 net assets changed as follows:

| | Governmental Activities | Business- Type Activities | Total |
|------------------------|----------------------------|------------------------------|----------------------|
| Beginning Net Assets | \$ 5,225,197 | \$ 8,516,622 | \$ 13,741,819 |
| Increase in Net Assets | <u>581,130</u> | <u>303,869</u> | <u>884,999</u> |
| Ending Net Assets | <u>\$ 5,806,327</u> | <u>\$ 8,820,491</u> | <u>\$ 14,626,818</u> |

Ending Net Assets consist of the following:

| | Governmental Activities | Business- Type Activities | Total |
|---------------------------------|----------------------------|------------------------------|----------------------|
| Invested in Capital Assets | | | |
| Net of Accumulated Depreciation | \$ 4,036,260 | \$ 6,225,246 | \$ 10,261,506 |
| Restricted for Debt Service | 20,826 | | 20,826 |
| Unrestricted | <u>1,749,241</u> | <u>2,595,245</u> | <u>4,344,486</u> |
| Ending Net Assets | <u>\$ 5,806,327</u> | <u>\$ 8,820,491</u> | <u>\$ 14,626,818</u> |

This summary reflects an increase of 11.1 % for the Governmental Activities and an increase of 3.6% in the Business-Type Activities. Net assets of the Governmental Activities accounted for 65.7% of the growth in net assets.

Total revenue reported in Fiscal Year 2004 was \$5,498,926. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities.

| Revenue Source | Governmental Activities | Business- Type Activities | Total |
|---|----------------------------|---------------------------------|---------------------|
| Program Revenues: | | | |
| Charges for Services | \$ 242,401 | \$ 3,057,784 | \$ 3,300,185 |
| Operating Grants and Contributions | <u>379,033</u> | <u>-</u> | <u>379,033</u> |
| Total Program Revenues | <u>\$ 621,434</u> | <u>\$ 3,057,784</u> | <u>\$ 3,679,218</u> |
| General Revenues & Interfund Transfers | | | |
| Property Taxes | \$ 1,067,388 | \$ - | \$ 1,067,388 |
| Local Option Sales Tax | 308,175 | - | 308,175 |
| Hotel/Motel Tax | 23,670 | - | 23,670 |
| Interest | 47,802 | 980 | 48,782 |
| Use of Property | - | 12,987 | 12,987 |
| Gain on Sale of Assets | 206,769 | - | 206,769 |
| Miscellaneous | 81,914 | 70,023 | 151,937 |
| Interfund Transfers | <u>648,207</u> | <u>(648,207)</u> | <u>-</u> |
| Total General Revenues & Interfund Transfers | <u>2,383,925</u> | <u>(564,217)</u> | <u>1,819,708</u> |
| Total Revenues & Interfund Transfers | <u>\$ 3,005,359</u> | <u>\$ 2,493,567</u> | <u>\$ 5,498,926</u> |

Program revenues totaled \$3,679,218 for fiscal year 2004. Governmental Activities provided \$621,434 or 16.9% and Business-Type Activities provided \$3,057,784 or 83.1%. Revenue collected for Charges for Services during the year was \$3,300,185, accounting for 90% of total program revenues. General Revenues for fiscal year 2004 totaled \$1,819,708, with Governmental Activities providing \$2,383,925, and Business-Type Activities using \$564,217.

Expenditures for fiscal year 2004 totaled \$4,613,927. Expenditures for General Governmental Activities totaled \$2,424,229, accounting for 53% of total expenditures. Business-Type Activity expenditures totaled \$2,189,698, for 47% of the total. The following table shows total expenditures by Function/Program:

| Program Level | Governmental Activities | Business- Type Activities | Total |
|------------------------------------|----------------------------|---------------------------------|---------------------|
| Public Safety | \$ 884,619 | \$ - | \$ 884,619 |
| Public Works | 649,387 | - | 649,387 |
| Culture and Recreation | 236,341 | - | 236,341 |
| Community and Economic Development | 94,772 | - | 94,772 |
| General Government | 336,952 | - | 336,952 |
| Debt Service | 222,158 | - | 222,158 |
| Electric Utility | - | 1,336,898 | 1,336,898 |
| Water Utility | - | 353,596 | 353,596 |
| Sewer Utility | - | 321,718 | 321,718 |
| Solid Waste Utility | - | 160,316 | 160,316 |
| Storm Water Utility | - | 17,170 | 17,170 |
| Total Expenditures | <u>\$ 2,424,229</u> | <u>\$ 2,189,698</u> | <u>\$ 4,613,927</u> |

The following table shows the activities included within each program level:

| | |
|---------------------------------------|---|
| Public Safety | Individual & Community Protection, Physical Health |
| Public Works | Roadway Construction, Airport Operations, General Streets, Transportation Services |
| Culture and Recreation | Education & Culture, Leisure Time Opportunities |
| Community & Economic Development..... | Economic Development and Community Beautification |
| General Government | Administration, Accounting, Support Services |
| Debt Service | Payment of Interest |
| Capital Projects..... | Construction of Capital Facilities |
| Electric Utility | Operation of Electric Distribution System |
| Water Utility..... | Operation of Water Supply Distribution System |
| Sewer Utility | Operation of Waste Water Treatment Plant/Collection System |
| Solid Waste Utility | Operation of Garbage and Recycling Collection and Disposal System |
| Storm Water Utility | Operation of Storm Water Drainage System |

Since this is the first year to report all activities in the GASB 34 format, a comparison to the prior year is not appropriate. However, in future years, this section will address the changes between the current and prior year's assets, liabilities, revenues, expenditures, and changes in net assets.

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional clarification is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, the City spent \$884,619 for Public Safety and received \$234,707 in revenue, leaving a cost to taxpayers of \$649,912 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety
Public Works
Culture and Recreation
General Government
Capital Projects

Fines, Fees
Road Use Tax, Rent
Fees, State Aid
Licenses, Permits
Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$2,424,229. Of these costs, \$242,401 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$379,033, leaving a Net Expense of \$1,802,795 for Governmental Activities. These expenses were covered with tax revenues, interest, and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

| Functions/Programs | Net (Expense) Revenue |
|--|--------------------------|
| Governmental Activities: | |
| Public Safety | \$ (649,912) |
| Public Works | (348,332) |
| Culture and Recreation | (183,564) |
| Community and Economic Development | (91,199) |
| General Government | (307,630) |
| Debt Service | <u>(222,158)</u> |
| Total Net (Expense) Revenue | |
| Governmental Activities | (1,802,795) |
| General Revenues & Interfund Transfers | <u>2,383,925</u> |
| Change in Net Assets | <u><u>\$ 581,130</u></u> |

In future years, a comparison of previous year's activity will be presented.

Total resources available during the year to finance governmental operations were \$8,230,556, consisting of Net Assets at July 1, 2003 of \$5,225,197, Program Revenues of \$621,434, and General Revenues of \$2,383,925. Total Governmental Activities during the year expended \$2,424,229; thus, Net Assets were increased by \$581,130 to \$5,806,327.

Business-Type Activities

Business-Type Activities increased the City's net assets by \$303,869, accounting for 34% of the growth in the City's net assets.

The cost of all Proprietary Activities this year was \$2,189,698. As shown in the Statement of Activities, the amount paid by users of the systems was \$3,057,784, resulting in a total Net Revenue of \$868,086.

| Business-Type Activities | Net (Expense) Revenue |
|--|--------------------------|
| Electric Utility | \$ 560,396 |
| Water Utility | 142,905 |
| Sewer Utility | 143,447 |
| Solid Waste Utility | 19,735 |
| Storm Water Utility | 1,603 |
| Total Net (Expense) Revenue | |
| Business-Type Activities | 868,086 |
| General Revenues & Interfund Transfers | (564,217) |
| Change in Net Assets | \$ 303,869 |

Total resources available during the year to finance Proprietary Fund activities were \$11,010,189, consisting of Net Assets at July 1, 2003, of \$8,516,622, Program Revenues of \$3,057,784, and General Revenues of \$(564,217). Total Proprietary Fund Activities during the year expended \$2,189,698; thus, Net Assets were increased by \$303,869 to \$8,820,491.

As stated above, the comparative nature of this report will be more complete when historical figures are available.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances \$1,712,893. The combined Governmental Funds balance increased \$480,989 from the prior year.

The General Fund is the primary operating fund of the City. During the year, expenditures exceeded revenues in the General Fund by \$1,106,164.

GENERAL FUND BUDGETARY HIGHLIGHTS

The fiscal year 2004 original (adopted) General Fund Budget totaled \$1,630,199. There were no supplemental appropriations made during the year.

The following table shows the General Fund budget variances by program structure:

| Expenditures | Final Budget | Actual | Variance |
|------------------------------------|---------------------|---------------------|-------------------|
| Public Safety | \$ 824,588 | \$ 790,049 | \$ 34,539 |
| Culture and Recreation | 385,650 | 269,538 | 116,112 |
| Community and Economic Development | 50,130 | 74,796 | (24,666) |
| General Government | 369,831 | 279,834 | 89,997 |
| Total Expenditures | <u>\$ 1,630,199</u> | <u>\$ 1,414,217</u> | <u>\$ 215,982</u> |

CAPITAL ASSETS

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, electric systems, sewer systems, water systems, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2004, was \$10,261,506, (net of accumulated depreciation and outstanding financings). The gross additions to capital assets for fiscal year 2004 are as follows:

| | Governmental Activities | Business- Type Activities | Total |
|--------------------------|----------------------------|---------------------------------|---------------------|
| Infrastructure | \$ 253,351 | \$ - | \$ 253,351 |
| Buildings | 925,962 | - | 925,962 |
| Distribution System | - | 214,079 | 214,079 |
| Equipment | 188,230 | 5,700 | 193,930 |
| Construction in Progress | 76,997 | 20,781 | 97,778 |
| Total Expenditures | <u>\$ 1,444,540</u> | <u>\$ 240,560</u> | <u>\$ 1,685,100</u> |

Construction in Progress consisted of costs associated with the water and sewer system improvements and infrastructure improvements.

See Note 5 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

On June 30, 2004 the City had \$4,210,000 of debt outstanding. This is an increase of \$210,000 from the prior year. \$500,000 of new debt was issued and \$290,000 of existing debt was retired.

ECONOMIC FACTORS

The City of Sergeant Bluff continues to report strong residential and commercial building projects. Property tax is a major source of revenue and Sergeant Bluff is fortunate that it has seen minor, but consistent increases in assessed and taxable valuation.

This steady growth has allowed the City to maintain its high level of service. The City has budgeted for use of General Fund balance during the past years, but has projected a balanced budget for the next three years. The General Fund balance continues to remain at a solid 33% of expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Sergeant Bluff's financial position for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sergeant Bluff, Administration Office, Sergeant Bluff, Iowa.

CITY OF SERGEANT BLUFF, IOWA
STATEMENT OF NET ASSETS
JUNE 30, 2004

| | Primary Government | | |
|--|---------------------|---------------------|----------------------|
| | Governmental | Business-Type | Total |
| | Activities | Activities | |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,567,304 | \$ 1,709,603 | \$ 3,276,907 |
| Investments | 72,000 | 366,500 | 438,500 |
| Receivables (Net, where applicable, of allowance for uncollectibles) | | | |
| Accounts | 1,816 | 364,630 | 366,446 |
| Taxes | 197,080 | - | 197,080 |
| Subsequent Year Taxes | 1,017,291 | - | 1,017,291 |
| Accrued Interest | 232 | 980 | 1,212 |
| Estimated Unbilled Usage | - | 81,358 | 81,358 |
| Due from Other Governmental Agencies | 72,543 | - | 72,543 |
| Inventories | 6,650 | 152,339 | 158,989 |
| Prepaid Assets | 18,526 | 55,578 | 74,104 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | - | 26,122 | 26,122 |
| Bond Issue Costs | 55,850 | - | 55,850 |
| Land | 393,609 | 202,934 | 596,543 |
| Construction in Progress | 97,137 | 85,121 | 182,258 |
| Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 6) | 7,755,514 | 5,937,191 | 13,692,705 |
| Total Assets | 11,255,552 | 8,982,356 | 20,237,908 |
| LIABILITIES | | | |
| Accounts Payable | 164,009 | 115,931 | 279,940 |
| Accrued Wages and Compensated Absences | 40,611 | 19,812 | 60,423 |
| Accrued Expenses | 17,314 | - | 17,314 |
| Customer Deposits | - | 26,122 | 26,122 |
| Deferred Revenue - Subsequent Year Taxes | 1,017,291 | - | 1,017,291 |
| Noncurrent Liabilities: | | | |
| Due within one year: | | | |
| General Obligation Bonds | 330,000 | - | 330,000 |
| Due in more than one year: | | | |
| General Obligation Bonds | 3,880,000 | - | 3,880,000 |
| Total Liabilities | 5,449,225 | 161,865 | 5,611,090 |
| NET ASSETS | | | |
| Invested in Capital Assets, | | | |
| Net of Related Debt | 4,036,260 | 6,225,246 | 10,261,506 |
| Restricted for: | | | |
| Debt Service | 20,826 | - | 20,826 |
| Unrestricted | 1,749,241 | 2,595,245 | 4,344,486 |
| Total Net Assets | \$ 5,806,327 | \$ 8,820,491 | \$ 14,626,818 |

See Accompanying Notes to Financial Statements

CITY OF SERGEANT BLUFF, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues | | |
|------------------------------------|--------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Public Safety | \$ 884,619 | \$ 137,649 | \$ 97,058 | \$ - |
| Public Works | 649,387 | 22,785 | 278,270 | - |
| Culture and Recreation | 236,341 | 52,777 | - | - |
| Community and Economic Development | 94,772 | 3,573 | - | - |
| General Government | 336,952 | 25,617 | 3,705 | - |
| Debt Service | 222,158 | - | - | - |
| Total governmental activities | 2,424,229 | 242,401 | 379,033 | - |
| Business-Type Activities: | | | | |
| Electric Utility | 1,336,898 | 1,897,294 | | |
| Water Utility | 353,596 | 496,501 | | |
| Sewer Utility | 321,718 | 465,165 | | |
| Solid Waste Utility | 160,316 | 180,051 | | |
| Storm Water Utility | 17,170 | 18,773 | | |
| Total Business-Type Activities: | 2,189,698 | 3,057,784 | - | - |
| Total Primary Government | \$ 4,613,927 | \$ 3,300,185 | \$ 379,033 | \$ - |

General Revenues:
Property taxes
Local Option Sales Tax
Hotel/Motel Taxes
Interest
Use of property
Gain (Loss) on Sale of Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See Accompanying Notes to Financial Statements

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|----------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (649,912) | | \$ (649,912) |
| (348,332) | | (348,332) |
| (183,564) | | (183,564) |
| (91,199) | | (91,199) |
| (307,630) | | (307,630) |
| (222,158) | | (222,158) |
| <u>(1,802,795)</u> | | <u>(1,802,795)</u> |
| | \$ 560,396 | 560,396 |
| | 142,905 | 142,905 |
| | 143,447 | 143,447 |
| | 19,735 | 19,735 |
| | 1,603 | 1,603 |
| | <u>868,086</u> | <u>868,086</u> |
| <u>(1,802,795)</u> | <u>868,086</u> | <u>(934,709)</u> |
| 1,067,388 | - | 1,067,388 |
| 308,175 | - | 308,175 |
| 23,670 | - | 23,670 |
| 47,802 | 980 | 48,782 |
| - | 12,987 | 12,987 |
| 206,769 | - | 206,769 |
| 81,914 | 70,023 | 151,937 |
| 648,207 | (648,207) | - |
| <u>2,383,925</u> | <u>(564,217)</u> | <u>1,819,708</u> |
| 581,130 | 303,869 | 884,999 |
| 5,225,197 | 8,516,622 | 13,741,819 |
| <u>\$ 5,806,327</u> | <u>\$ 8,820,491</u> | <u>\$ 14,626,818</u> |

CITY OF SERGEANT BLUFF, IOWA
BALANCE SHEET
Governmental Funds
JUNE 30, 2004

| | General | Debt Service | Capital Projects |
|---|---------------------|-------------------------|-----------------------------|
| Assets | | | |
| Cash and Pooled Investments | \$ 464,979 | \$ - | \$ 657,229 |
| Investments | 44,000 | - | 28,000 |
| Receivables (Net, where applicable, of allowance for uncollectibles) | | | |
| Accounts | 1,816 | - | - |
| Taxes | 130,399 | 66,681 | - |
| Subsequent Year Taxes | 694,013 | 323,278 | - |
| Accrued Interest | 161 | - | 71 |
| Due from Other Funds | 41,959 | - | - |
| Due from Other Governmental Agencies | 5,009 | - | - |
| Inventories | - | - | - |
| Total Assets | <u>1,382,336</u> | <u>389,959</u> | <u>685,300</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts Payable | 139,738 | 3,896 | 15,121 |
| Accrued Wages and Compensated Absences | 37,290 | - | - |
| Due to Other Funds | - | 41,959 | - |
| Unearned Revenue | 82 | 30 | - |
| Deferred Revenue - Subsequent Year Taxes | 694,013 | 323,278 | - |
| Total Liabilities | <u>871,123</u> | <u>369,163</u> | <u>15,121</u> |
| Fund Balances: | | | |
| Reserved for: | | | |
| Debt Service | - | 20,796 | - |
| Inventories | - | - | - |
| Unreserved | 511,213 | - | 670,179 |
| Total Fund Balances | <u>511,213</u> | <u>20,796</u> | <u>670,179</u> |
| Total Liabilities and Equity | <u>\$ 1,382,336</u> | <u>\$ 389,959</u> | <u>\$ 685,300</u> |

See Accompanying Notes to Financial Statements

| Other Governmental Funds | | Total Governmental Funds | |
|--------------------------------|---------|--------------------------------|-----------|
| \$ | 445,096 | \$ | 1,567,304 |
| | - | | 72,000 |
| | - | | 1,816 |
| | - | | 197,080 |
| | - | | 1,017,291 |
| | - | | 232 |
| | - | | 41,959 |
| | 67,534 | | 72,543 |
| | 6,650 | | 6,650 |
| | 519,280 | | 2,976,875 |

| | | | |
|--|-------|--|-----------|
| | 5,254 | | 164,009 |
| | 3,321 | | 40,611 |
| | - | | 41,959 |
| | - | | 112 |
| | - | | 1,017,291 |
| | 8,575 | | 1,263,982 |

| | | | |
|----|---------|----|-----------|
| | - | | 20,796 |
| | 6,650 | | 6,650 |
| | 504,055 | | 1,685,447 |
| | 510,705 | | 1,712,893 |
| \$ | 519,280 | \$ | 2,976,875 |

CITY OF SERGEANT BLUFF, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2004

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

| | | |
|---|----|-------------------------|
| Total Fund Balance - Governmental Funds (page 14) | \$ | 1,712,893 |
| Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 8,246,260 |
| Deferred revenues that provide current financial resources for governmental activities | | 112 |
| Accrued expenses from the balance sheet that require current financial resources for governmental activities | | (17,314) |
| Bond issue costs are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources | | 55,850 |
| Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources | | 18,526 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | | <u>(4,210,000)</u> |
| Total Net Assets - Governmental Activities (page 10) | \$ | <u><u>5,806,327</u></u> |

See Accompanying Notes to Financial Statements

CITY OF SERGEANT BLUFF, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended June 30, 2004

| | General | Debt Service | Capital Projects |
|---|-------------------|-------------------------|-----------------------------|
| Revenue: | | | |
| Taxes | \$ 670,162 | \$ 397,114 | \$ - |
| Licenses and Permits | 44,407 | - | - |
| Intergovernmental Revenue | 88,943 | - | - |
| Charges for Services | 79,186 | - | - |
| Fines and Forfeits | 19,866 | - | - |
| Contributions | 6,703 | - | - |
| Interest | 35,919 | - | 9,118 |
| Miscellaneous | 29,362 | - | 34,642 |
| Total Revenue | <u>974,548</u> | <u>397,114</u> | <u>43,760</u> |
| Expenditures: | | | |
| Public Safety | 856,767 | - | - |
| Public Works | - | - | - |
| Culture and Recreation | 295,518 | - | - |
| Community and Economic Development | 94,772 | - | - |
| General Government | 314,795 | - | - |
| Capital Projects | - | - | 618,256 |
| Debt Service | - | 497,679 | - |
| Depreciation | - | - | - |
| Total Expenditures | <u>1,561,852</u> | <u>497,679</u> | <u>618,256</u> |
| Excess (deficiency) of revenues over expenditures | <u>(587,304)</u> | <u>(100,565)</u> | <u>(574,496)</u> |
| Other financing sources (uses): | | | |
| Proceeds from Debt Financing | - | - | 500,000 |
| Proceeds from the Sale of Assets | 185,274 | - | 21,495 |
| Transfers In | 967,202 | 246,394 | 2,555,336 |
| Transfers Out | (1,671,336) | - | (967,202) |
| Total other financing sources (uses) | <u>(518,860)</u> | <u>246,394</u> | <u>2,109,629</u> |
| Net Change in Fund Balance | (1,106,164) | 145,829 | 1,535,133 |
| Fund balances-beginning of year | 1,617,377 | (125,033) | (864,954) |
| Fund balances- end of year | <u>\$ 511,213</u> | <u>\$ 20,796</u> | <u>\$ 670,179</u> |

See Accompanying Notes to Financial Statements

| Other Governmental Funds | | Total Governmental Funds | |
|---|-----------|---|-------------|
| \$ | - | \$ | 1,067,276 |
| | - | | 44,407 |
| | 596,202 | | 685,145 |
| | 69,454 | | 148,640 |
| | - | | 19,866 |
| | 33,238 | | 39,941 |
| | 2,765 | | 47,802 |
| | 33,190 | | 97,194 |
| | 734,849 | | 2,150,271 |
| | | | |
| | 98,331 | | 955,098 |
| | 236,940 | | 236,940 |
| | - | | 295,518 |
| | - | | 94,772 |
| | 11,200 | | 325,995 |
| | - | | 618,256 |
| | - | | 497,679 |
| | | | |
| | 346,471 | | 3,024,258 |
| | | | |
| | 388,378 | | (873,987) |
| | | | |
| | - | | 500,000 |
| | - | | 206,769 |
| | - | | 3,768,932 |
| | (482,187) | | (3,120,725) |
| | (482,187) | | 1,354,976 |
| | | | |
| | (93,809) | | 480,989 |
| | | | |
| | 604,514 | | 1,231,904 |
| | | | |
| \$ | 510,705 | \$ | 1,712,893 |

CITY OF SERGEANT BLUFF, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|----|---------|
| Net change in fund balances - total governmental funds (page 17) | \$ | 480,989 |
|--|----|---------|

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays were exceeded by depreciation expense in the current year as follows:

| | | | |
|---------------------------------|----|------------------|---------|
| Expenditures for capital assets | \$ | 913,512 | |
| Depreciation expense | | <u>(613,603)</u> | 299,909 |

| | |
|--|-----|
| Revenues reported in the funds that are not available to provide current financial resources | 112 |
|--|-----|

| | |
|---|-------|
| Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources | 4,152 |
|---|-------|

| | |
|--|-------|
| Accrued interest expense that does not require current financial resources | (441) |
|--|-------|

| | |
|---|-----------|
| The issuance of indebtedness provides current financial resources to the governmental funds without affecting net assets. The statement of activities does not reflect the proceeds from the issuance of long-term debt. The proceeds from the issuance of long-term debt for the year was: | (500,000) |
|---|-----------|

| | |
|--|-------|
| The governmental funds report the effect of bond issuance costs when new debt is issued, whereas the amounts are deferred and amortized in the Statement of Activities | 6,409 |
|--|-------|

| | |
|---|----------------|
| The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was: | <u>290,000</u> |
|---|----------------|

| | | |
|---|-----------|----------------|
| Change in net assets of governmental activities (page 12) | <u>\$</u> | <u>581,130</u> |
|---|-----------|----------------|

See Accompanying Notes to Financial Statements

CITY OF SERGEANT BLUFF, IOWA
COMBINING STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2004

| | Business Type Activities | |
|---|---------------------------------|--------------------------|
| | Electric Utility | Water Utility |
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 978,268 | \$ 270,830 |
| Investments | 340,500 | 17,000 |
| Receivables (Net, where applicable, of allowance for uncollectibles) | | |
| Accounts | 234,941 | 52,648 |
| Accrued Interest | 901 | 47 |
| Estimated Unbilled Usage | 52,447 | 12,381 |
| Due from Other Funds | 54,874 | - |
| Inventories | 152,339 | - |
| Prepaid Assets | 18,526 | 18,526 |
| Restricted Assets: | | |
| Cash and Cash Equivalents | 26,122 | - |
| Property, Plant and Equipment | | |
| Land | - | 151,344 |
| Construction in Progress | - | 27,342 |
| Infrastructure, Property and Equipment, Net of Accumulated Depreciation | 1,004,268 | 2,891,228 |
| Total Assets | 2,863,186 | 3,441,346 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | 85,311 | 14,968 |
| Accrued Wages and Compensated Absences | 9,760 | 5,026 |
| Customer Deposits | 26,122 | - |
| Due to Other Funds | - | - |
| Total Liabilities | 121,193 | 19,994 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 1,004,268 | 3,069,914 |
| Unrestricted | 1,737,725 | 351,438 |
| Total Net Assets | \$ 2,741,993 | \$ 3,421,352 |

See Accompanying Notes to Financial Statements

| Business Type Activities | | | | |
|--------------------------|---------------------------|---------------------------|--------------|--|
| Sewer Utility | Solid Waste Utility | Storm Water Utility | Total | |
| \$ 439,891 | \$ 20,614 | \$ - | \$ 1,709,603 | |
| 9,000 | - | - | 366,500 | |
| 52,656 | 21,062 | 3,323 | 364,630 | |
| 32 | - | - | 980 | |
| 10,579 | 4,251 | 1,700 | 81,358 | |
| - | - | - | 54,874 | |
| - | - | - | 152,339 | |
| 18,526 | - | - | 55,578 | |
| - | - | - | 26,122 | |
| 51,590 | - | - | 202,934 | |
| 57,779 | - | - | 85,121 | |
| 1,986,880 | - | 54,815 | 5,937,191 | |
| 2,626,933 | 45,927 | 59,838 | 9,037,230 | |
| 15,341 | 183 | 128 | 115,931 | |
| 5,026 | - | - | 19,812 | |
| - | - | - | 26,122 | |
| - | - | 54,874 | 54,874 | |
| 20,367 | 183 | 55,002 | 216,739 | |
| 2,096,249 | - | 54,815 | 6,225,246 | |
| 510,317 | 45,744 | (49,979) | 2,595,245 | |
| \$ 2,606,566 | \$ 45,744 | \$ 4,836 | \$ 8,820,491 | |

CITY OF SERGEANT BLUFF, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2004

| | Business Type Activities | |
|--|---------------------------------|--------------------------|
| | Electric Utility | Water Utility |
| Operating Revenues: | | |
| Charges for Services | \$ 1,897,294 | \$ 496,501 |
| Total Operating Revenue | <u>1,897,294</u> | <u>496,501</u> |
| Operating Expenses: | | |
| Cost of Service | 1,285,812 | 296,858 |
| Depreciation | 51,086 | 56,738 |
| Total Operating Expenses | <u>1,336,898</u> | <u>353,596</u> |
| Operating Income | 560,396 | 142,905 |
| Non-Operating Income (Expense): | | |
| Interest Income | 901 | 47 |
| Revenue from Use of Property | | 12,987 |
| Other Non-operating Revenues | 6,624 | 4,234 |
| Contributed Capital Revenue | 19,500 | |
| Total Non-Operating Income (Expenses) | <u>27,025</u> | <u>17,268</u> |
| Income before Transfers | 587,421 | 160,173 |
| Transfers Out | <u>(273,000)</u> | <u>(139,207)</u> |
| Change in Net Assets | 314,421 | 20,966 |
| Net Assets - Beginning | <u>2,427,572</u> | <u>3,400,386</u> |
| Net Assets - Ending | <u>\$ 2,741,993</u> | <u>\$ 3,421,352</u> |

See Accompanying Notes to Financial Statements

| Business Type Activities | | | |
|---------------------------------|------------------------------------|------------------------------------|---------------------|
| Sewer Utility | Solid Waste Utility | Storm Water Utility | Total |
| <u>\$ 465,165</u> | <u>\$ 180,051</u> | <u>\$ 18,773</u> | <u>\$ 3,057,784</u> |
| 465,165 | 180,051 | 18,773 | 3,057,784 |
| 273,232 | 160,316 | 16,051 | 2,032,269 |
| 48,486 | - | 1,119 | 157,429 |
| <u>321,718</u> | <u>160,316</u> | <u>17,170</u> | <u>2,189,698</u> |
| 143,447 | 19,735 | 1,603 | 868,086 |
| 32 | | | 980 |
| | | | 12,987 |
| 111 | | | 10,969 |
| <u>32,119</u> | | <u>7,435</u> | <u>59,054</u> |
| <u>32,262</u> | <u>-</u> | <u>7,435</u> | <u>83,990</u> |
| 175,709 | 19,735 | 9,038 | 952,076 |
| <u>(236,000)</u> | | | <u>(648,207)</u> |
| (60,291) | 19,735 | 9,038 | 303,869 |
| <u>2,666,857</u> | <u>26,009</u> | <u>(4,202)</u> | <u>8,516,622</u> |
| <u>\$ 2,606,566</u> | <u>\$ 45,744</u> | <u>\$ 4,836</u> | <u>\$ 8,820,491</u> |

CITY OF SERGEANT BLUFF, IOWA
COMBINING STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2004

| | Business Type Activities | |
|---|---------------------------------|--------------------------|
| | Electric Utility | Water Utility |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash Received from Customers | \$ 1,862,423 | \$ 503,410 |
| Cash Paid to Suppliers for Goods and Services | (1,021,820) | (170,344) |
| Cash Paid to Employees for Services | (214,785) | (123,092) |
| Other Receipts | 6,624 | 17,221 |
| Net Cash Provided by (Used for) Operating Activities | <u>632,442</u> | <u>227,195</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and Construction of Capital Assets | (153,261) | (21,976) |
| Developer Contributions in Lieu of Special Assessments | 19,500 | - |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | <u>(133,761)</u> | <u>(21,976)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Operating Transfers to Other Funds | (273,000) | (139,207) |
| Advances From (To) Other Funds, Net of Repayments | <u>(54,874)</u> | <u>-</u> |
| Net Cash Provided by (Used for) Non-Capital Financing Activities | <u>(327,874)</u> | <u>(139,207)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 170,807 | 66,012 |
| Cash and Cash Equivalents at Beginning of Year | <u>833,583</u> | <u>204,818</u> |
| Cash and Cash Equivalents at End of Year | <u><u>\$ 1,004,390</u></u> | <u><u>\$ 270,830</u></u> |

See Accompanying Notes to Financial Statements

| Business Type Activities | | | |
|---------------------------------|------------------------------------|------------------------------------|---------------------|
| Sewer Utility | Solid Waste Utility | Storm Water Utility | Total |
| \$ 468,736 | \$ 179,213 | \$ 13,750 | \$ 3,027,532 |
| (137,901) | (171,224) | (16,937) | (1,518,226) |
| (124,541) | - | - | (462,418) |
| 111 | - | - | 23,956 |
| <u>206,405</u> | <u>7,989</u> | <u>(3,187)</u> | <u>1,070,844</u> |
| (9,391) | - | (48,499) | (233,127) |
| <u>32,119</u> | <u>-</u> | <u>-</u> | <u>51,619</u> |
| <u>22,728</u> | <u>-</u> | <u>(48,499)</u> | <u>(181,508)</u> |
| (236,000) | - | - | (648,207) |
| <u>-</u> | <u>-</u> | <u>51,686</u> | <u>(3,188)</u> |
| <u>(236,000)</u> | <u>-</u> | <u>51,686</u> | <u>(651,395)</u> |
| (6,867) | 7,989 | - | 237,941 |
| <u>446,758</u> | <u>12,625</u> | <u>-</u> | <u>1,497,784</u> |
| <u>\$ 439,891</u> | <u>\$ 20,614</u> | <u>\$ -</u> | <u>\$ 1,735,725</u> |

CITY OF SERGEANT BLUFF, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2004

| | Business Type Activities | |
|---|---------------------------------|--------------------------|
| | Electric Utility | Water Utility |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | |
| Operating Income | <u>\$ 560,396</u> | <u>\$ 142,905</u> |
| Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Depreciation | 51,086 | 56,738 |
| Miscellaneous Non-Operating Income | 6,624 | 17,221 |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (20,807) | 7,462 |
| Estimated Unbilled Usage | (14,064) | (553) |
| Prepays | (4,152) | (4,152) |
| Inventories | (1,860) | - |
| Increase (Decrease) in Liabilities | | |
| Accounts Payable | 53,726 | 9,507 |
| Accrued Wages and Compensated Absences | 990 | (880) |
| Accrued Expenses | 503 | (1,053) |
| Total Adjustments | <u>72,046</u> | <u>84,290</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 632,442</u></u> | <u><u>\$ 227,195</u></u> |

See Accompanying Notes to Financial Statements

| Business Type Activities | | | |
|---------------------------------|------------------------------------|------------------------------------|----------------------------|
| Sewer Utility | Solid Waste Utility | Storm Water Utility | Total |
| <u>\$ 143,447</u> | <u>\$ 19,735</u> | <u>\$ 1,603</u> | <u>\$ 868,086</u> |
| 48,486 | - | 1,119 | 157,429 |
| 111 | - | - | 23,956 |
| 4,519 | (89) | (3,323) | (12,238) |
| (948) | (749) | (1,700) | (18,014) |
| (4,152) | - | - | (12,456) |
| - | - | - | (1,860) |
| 14,595 | (10,908) | (886) | 66,034 |
| 554 | - | - | 664 |
| (207) | - | - | (757) |
| <u>62,958</u> | <u>(11,746)</u> | <u>(4,790)</u> | <u>202,758</u> |
| <u><u>\$ 206,405</u></u> | <u><u>\$ 7,989</u></u> | <u><u>\$ (3,187)</u></u> | <u><u>\$ 1,070,844</u></u> |

CITY OF SERGEANT BLUFF, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
Agency Fund
June 30, 2004

ASSETS

| | | |
|-----------------------------|----|-------|
| Cash and Pooled Investments | \$ | 4,817 |
| Due from Other Funds | | - |

| | | |
|---------------------|--|--------------|
| Total Assets | | <u>4,817</u> |
|---------------------|--|--------------|

LIABILITIES

| | | |
|------------------|--|-------|
| Accounts Payable | | 4,817 |
|------------------|--|-------|

| | | |
|--------------------------|--|--------------|
| Total Liabilities | | <u>4,817</u> |
|--------------------------|--|--------------|

NET ASSETS

| | | |
|--------------|--|---|
| Unrestricted | | - |
|--------------|--|---|

| | | |
|------------------|----|-----------------|
| Total Net Assets | \$ | <u><u>-</u></u> |
|------------------|----|-----------------|

See Accompanying Notes to Financial Statements

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sergeant Bluff, Iowa, is a political subdivision of the State of Iowa located in Woodbury County, and was incorporated in 1854, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government, with an appointed administrator, elected on a nonpartisan basis and administers the following programs as authorized by its charter: public safety, public works, culture and recreation, community and economic development, general government, capital projects and debt service. The City also has municipal water, sewer and solid waste utility systems which are governed by the City Council.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statement include the following:

For the first time:

- a. A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and result of operations.
- b. Financial statements prepared using full accrual accounting for all the City's activities.
- c. A change in the fund financial statements to focus on the major funds of the City.

Also approved by GASB was Statement No. 38, *Certain Financial Statement Note Disclosures*.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The City has implemented the statements for the year ended June 30, 2004.

A. REPORTING ENTITY

For financial reporting purposes, the City of Sergeant Bluff, Iowa, has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Sergeant Bluff, Iowa (the primary government) and its component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

Sergeant Bluff Volunteer Fire and Rescue Department is legally separate from the City but is so intertwined with the City that it is, in substance, part of the City. The Sergeant Bluff Volunteer Fire and Rescue Department established pursuant to local ordinances and organized under their own by-laws collects donations which are used to purchase items which are not included in the City budget. The financial transactions have been included as a special revenue fund of the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Woodbury County Solid Waste Agency Board, Woodbury County Joint E-911 Services Board and Woodbury County Conference Board.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, and capital projects funds are classified as governmental activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses restricted resources to finance qualifying activities.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The Government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (public safety, public works, health and social services, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues or receipts, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The non-major funds are combined into a single column in the fund financial statements.

The City reports the following major governmental funds:

Governmental Fund Types – The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

- 1) **General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, economic development, and culture and recreation.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- 2) Debt Service Fund – Debt Service Fund is used to account for property taxes received to be expended to retire principal and interest on General Obligation Bonds and other debt.
- 3) Capital Project Fund – The Capital Project Fund is used to account for the construction of major capital improvements and infrastructure financed by transfer from other funds and bond issues.

Proprietary Fund Types – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. The U.S. generally accepted accounting principles used are those applicable to similar businesses in the private sector.

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City maintains several business-type activities. The major enterprise funds are listed as follows:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City garbage disposal system.

The Electric Fund is used to account for the operation and maintenance of the City's electric system.

The Storm Water Utility Fund is used to account for the operation and maintenance of the City's storm water utility.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City's Agency Fund is used to account for a medical flexible spending account.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred.

Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

E. Budgets

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the public safety, community and economic development and debt service functions.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

F. Cash And Cash Equivalents And Investments

The City is authorized by statute to invest public funds not currently needed for operating expenses in notes, certificates, bonds, prime eligible bankers acceptances, certain high rated commercial paper, perfected repurchase agreements, or other evidences of indebtedness which are obligations of or guaranteed by the United States of America or any of its agencies, or in time deposits or savings accounts in depositories approved by the City Council.

1) Cash and Cash Equivalents

Includes investments with original maturities of three months or less.

2) Investments

The City and its component unit use the following methods in determining the reported amounts.

| <u>Type</u> | <u>Method</u> |
|--|---------------|
| Non-negotiable Certificates of Deposit | Cost |

G. Property Tax Receivable

Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2002. Any county collections on the 2003-2004 tax levy remitted to the City within 60 days subsequent to June 30, 2004, are recorded as property tax revenue.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

H. Short-Term Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2004, balances of interfund amounts payable or receivable have been recorded as “due to other funds” and “due from other funds”, respectively. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

I. Inventories

Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The inventory amounts are not material and therefore not recorded on the balance sheet.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items.

K. Property and Equipment

Assets with an initial individual cost of \$1,000 or more are considered capital assets. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure has been capitalized using historical or estimated historical cost beginning in 1980 as required by GASB 34. Depreciation on all assets is provided on the straight-line basis over the following estimated lives:

| | |
|-----------------------|----------------|
| Buildings | 20 – 50 Years |
| Utility Plant | 30 – 33 Years |
| Machinery & Equipment | 5 – 20 Years |
| Infrastructure | 20 – 100 Years |

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

L. Compensated Absences

Vested or accumulated vacation leave including related employee benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave including related employee benefits that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. The general fund has been used in prior years to liquidate the liability for compensated absences. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

N. Fund Equity

Reserves represent those portions of fund equity legally segregated for a specific future use.

O. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2004, were entirely covered by Federal Depository Insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS – (CONTINUED)

Deposits at June 30, 2004, are shown below:

| | <u>Fair Value</u> | <u>Bank Balance</u> |
|--------------------------------|-----------------------|-------------------------|
| Demand Deposits | \$1,678,029 | \$1,743,436 |
| Time Deposits | 438,500 | 438,500 |
| Perfected Repurchase Agreement | 1,625,000 | 1,625,000 |
| | <u>\$3,741,529</u> | <u>\$3,806,936</u> |

Note 3 - DUE FROM OTHER GOVERNMENTS

At June 30, 2004, amounts due from other governments were as follows:

| | |
|---|------------------|
| Due from the Iowa Department of Transportation for road use tax allocations | \$ 22,007 |
| Due from the State of Iowa for local option sales taxes | 45,527 |
| Due from the State of Iowa for miscellaneous grants | 5,009 |
| Total Due from Other Governments | <u>\$ 72,543</u> |

Note 4 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2004, short-term interfund borrowings were as follows:

| <u>Fund Due To</u> | <u>Fund Due From</u> | <u>Amount</u> |
|------------------------|---------------------------|------------------|
| General | Debt Service | \$ 41,959 |
| Proprietary – Electric | Proprietary – Storm Water | 54,874 |
| | | <u>\$ 96,833</u> |

Note 5 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

| | <u>Balance July 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2004</u> |
|--|-------------------------------------|------------------|-------------------|--------------------------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 393,609 | \$ - | \$ - | \$ 393,609 |
| Construction in Progress | 551,167 | 76,997 | 531,027 | 97,137 |
| Total capital assets not being depreciated | <u>\$ 944,776</u> | <u>\$ 76,997</u> | <u>\$ 531,027</u> | <u>\$ 490,746</u> |

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 5 - CAPITAL ASSETS – (CONTINUED)

| | Balance July 1, 2003 | Additions | Deletions | Balance June 30, 2004 |
|--|----------------------------|------------|------------|-----------------------------|
| Capital assets being depreciated: | | | | |
| Buildings | \$ 1,041,177 | \$ 925,962 | \$ - | \$ 1,967,139 |
| Equipment | 1,506,101 | 188,230 | - | 1,694,331 |
| Infrastructure | 9,289,338 | 253,351 | - | 9,542,689 |
| Total capital assets being depreciated | 11,836,616 | 1,367,543 | - | 13,204,159 |
| Less: Accumulated Depreciation for: | | | | |
| Buildings | 101,892 | 37,733 | - | 139,625 |
| Equipment | 897,794 | 146,327 | - | 1,044,121 |
| Infrastructure | 3,835,356 | 429,543 | - | 4,264,899 |
| Total Accumulated Depreciation | 4,835,042 | 613,603 | - | 5,448,645 |
| Total capital assets being depreciated, net | 7,001,574 | 753,940 | - | 7,755,514 |
| Governmental activities capital assets, net | \$ 7,946,350 | \$ 830,937 | \$ 531,027 | \$ 8,246,260 |
| | Balance July 1, 2003 | Additions | Deletions | Balance June 30, 2004 |
| Business-Type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 202,934 | \$ - | \$ - | \$ 202,934 |
| Construction in Progress | 64,340 | 20,781 | - | 85,121 |
| Total capital assets not being depreciated | 267,274 | 20,781 | - | 288,055 |
| Capital assets being depreciated: | | | | |
| Buildings and Improvements | 855,800 | - | - | 855,800 |
| Equipment | 341,728 | 5,700 | - | 347,428 |
| Distribution System | 5,722,027 | 214,079 | - | 5,936,106 |
| Total capital assets being depreciated | 6,919,555 | 219,779 | - | 7,139,334 |
| Less: Accumulated Depreciation | 1,044,714 | 157,429 | - | 1,202,143 |
| Total capital assets being depreciated, net | 5,874,841 | 62,350 | - | 5,937,191 |
| Business-type activities capital assets, net | \$ 6,142,115 | \$ 83,131 | \$ - | \$ 6,225,246 |

Construction in progress at June 30, 2004 consisted of costs associated with the water and sewer system improvements.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 5 - CAPITAL ASSETS – (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|-------------------|
| Governmental Activities: | |
| Public Safety | \$ 126,015 |
| Public Works | 468,329 |
| Culture and Recreation | 2,695 |
| General Government | 16,564 |
| | <u>613,603</u> |
| Total depreciation expense – governmental activities | <u>\$ 613,603</u> |
| Business-Type Activities: | |
| Water | \$ 56,738 |
| Sewer | 48,486 |
| Electric | 51,086 |
| Storm Water | 1,119 |
| | <u>157,429</u> |
| Total depreciation expense – business-type activities | <u>\$ 157,429</u> |

Reconciliation of Investment in Capital Assets:

| | Governmental Activities | Business-Type Activities |
|---|------------------------------------|-------------------------------------|
| Land | \$ 393,609 | \$ 202,934 |
| Construction in Progress | 97,137 | 85,121 |
| Capital Assets (net of accumulated depreciation) | 7,755,514 | 5,937,191 |
| Less: General Obligation Bonds Payable | (4,210,000) | - |
| | <u>4,036,260</u> | <u>6,225,246</u> |
| Investment in Capital Assets, Net of Related Debt | <u>\$ 4,036,260</u> | <u>\$ 6,225,246</u> |

Note 6 - LONG-TERM DEBT

The City's computed legal debt limit as of June 30, 2004, is \$4,225,110 of which \$4,210,000 is committed for outstanding general obligation debt.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 6 - LONG-TERM DEBT – (CONTINUED)

The following is a summary of bond transactions of the City for the year ended June 30, 2004:

| | Governmental Activities |
|-----------------------------|---|
| | General Obligation Bonds and Notes Paid By Debt Service Fund |
| <i>Primary Government:</i> | |
| Bonds payable July 1, 2003 | \$ 4,000,000 |
| Plus: bonds issued | 500,000 |
| Less: Payments | (290,000) |
| | <u>4,210,000</u> |
| Bonds Payable June 30, 2004 | <u>\$ 4,210,000</u> |
| Due within one year | <u>\$ 330,000</u> |

| | Date of Issue | Interest Rates | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding June 30, 2004 |
|----------------------------|---------------------|-------------------|----------------------|----------------------|--------------------------------|---------------------------------|
| General Obligation: | | | | | | |
| Fire Station | 1997 | 4.75-5.65% | 2010 | \$65,000 - \$85,000 | \$ 800,000 | \$ 460,000 |
| Street Improvement | 1997 | 4.65-5.35% | 2008 | \$25,000 - \$30,000 | 250,000 | 115,000 |
| Corporate Purpose | 1999 | 4.30-5.50% | 2015 | \$75,000 - \$120,000 | 1,330,000 | 1,045,000 |
| Swimming Pool | 2001 | 4.75-5.40% | 2017 | \$65,000 - \$120,000 | 1,300,000 | 1,195,000 |
| Corporate Purpose | 2001 | 3.50-5.20% | 2015 | \$65,000 - \$100,000 | 960,000 | 895,000 |
| Corporate Purpose | 2004 | 2.00-4.80% | 2016 | \$35,000 - \$50,000 | 500,000 | 500,000 |
| Total General Obligation | | | | | <u>\$ 5,140,000</u> | <u>\$ 4,210,000</u> |

The following is a schedule of debt service requirements to maturity:

| Year | Principal | Interest | Total |
|-----------|---------------------|---------------------|---------------------|
| 2005 | \$ 330,000 | \$ 207,773 | \$ 537,773 |
| 2006 | 350,000 | 192,883 | 542,883 |
| 2007 | 365,000 | 176,523 | 541,523 |
| 2008 | 390,000 | 159,033 | 549,033 |
| 2009 | 375,000 | 140,013 | 515,013 |
| 2010-2014 | 1,735,000 | 434,410 | 2,169,410 |
| 2015-2017 | 665,000 | 56,275 | 721,275 |
| | <u>\$ 4,210,000</u> | <u>\$ 1,366,910</u> | <u>\$ 5,576,910</u> |

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 – TRANSFERS

The following is a summary of transfers between funds:

| | General | Debt Service | Capital Projects | Total Transfers Out |
|------------------------------|-------------------|-------------------------|-----------------------------|--------------------------------|
| General | \$ - | \$ - | \$ 1,671,336 | \$ 1,671,336 |
| Capital Project | 967,202 | - | - | 967,202 |
| Nonmajor Governmental | - | 64,187 | 418,000 | 482,187 |
| Water | - | 139,207 | - | 139,207 |
| Sewer | - | 43,000 | 193,000 | 236,000 |
| Electric | - | - | 273,000 | 273,000 |
| Total Transfers In | <u>\$ 967,202</u> | <u>\$ 246,394</u> | <u>\$ 2,555,336</u> | <u>\$ 3,768,932</u> |

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. To move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due.

Note 8 - PENSION AND RETIREMENT

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute plan to members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70 percent of their annual covered salary and the City is required to contribute 5.75 percent of annual covered payroll except for law employees who are covered by another plan. Contribution requirements are established by state statute. The City contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$63,878, \$52,680, and \$46,250, respectively, equal to the required contributions for each year.

Note 9 - DEFICIT UNRESTRICTED NET ASSETS

The storm water drainage utility ended the fiscal year with a deficit balance of \$49,979. The deficit will be financed with future storm water drainage fees.

CITY OF SERGEANT BLUFF, IOWA
Notes to Financial Statements
June 30, 2004

Note 10 - RISK MANAGEMENT

The City of Sergeant Bluff is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11 - COMMITMENTS

During the year ended June 30, 2004, the City had entered into several construction contracts totaling \$820,000 of which none has been expended to date. The remaining balance will be paid as work progresses.

Note 12 - INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$9,100,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

Note 13 - RESERVES

The following schedule reflects all reservations of fund balances as presented in the fund level statements:

| | <u>Inventory</u> | <u>Debt Service</u> | <u>Total</u> |
|--|------------------|-------------------------|------------------|
| Debt Service | \$ - | \$ 20,796 | \$ 20,796 |
| Nonmajor Governmental Funds | 6,650 | - | 6,650 |
| Total Reserves of Fund Balances | <u>\$ 6,650</u> | <u>\$ 20,796</u> | <u>\$ 27,446</u> |

Note 14 - COMMUNITY ECONOMIC BETTERMENT (CEBA) LOAN

On December 15, 1998, the City received \$175,000 from the Iowa Department of Economic Development under a CEBA loan agreement. The City subsequently loaned \$175,000 to a private business. No interest or principal payments are required during the first and second years. At the project completion date, \$1,250 will be forgiven for each new job created and the balance remaining will be amortized over the remaining three years in equal annual payments with 6% per annum interest. The City's liability for repayment of this loan is limited to those amounts the City collects through its good faith enforcement of security interest with the business, therefore, the liability for this loan is not included in the Government-Wide Financial Statements.

CITY OF SERGEANT BLUFF, IOWA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET
AND ACTUAL, GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS - CASH BASIS
Year Ended June 30, 2004

| General Fund | | | | |
|---|------------------|--------------|-------------|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| Revenue: | | | | |
| Taxes | \$ 619,956 | \$ 619,956 | \$ 542,101 | \$ (77,855) |
| Licenses and Permits | 24,680 | 24,680 | 44,407 | 19,727 |
| Intergovernmental Revenue | 86,952 | 86,952 | 85,823 | (1,129) |
| Charges for Services | 23,053 | 23,053 | 78,966 | 55,913 |
| Fines and Forfeits | - | - | 17,977 | 17,977 |
| Contributions | - | - | 6,703 | 6,703 |
| Interest | 55,000 | 55,000 | 35,758 | (19,242) |
| Miscellaneous | 34,787 | 34,787 | 29,008 | (5,779) |
| Total Revenue | 844,428 | 844,428 | 840,743 | (3,685) |
| Expenditures: | | | | |
| Public Safety | 824,588 | 824,588 | 790,049 | 34,539 |
| Culture and Recreation | 385,650 | 385,650 | 269,538 | 116,112 |
| Community and Economic Development | 50,130 | 50,130 | 74,796 | (24,666) |
| General Government | 369,831 | 369,831 | 279,834 | 89,997 |
| Total Expenditures | 1,630,199 | 1,630,199 | 1,414,217 | 215,982 |
| Excess (deficiency) of revenues over expenditures | (785,771) | (785,771) | (573,474) | 212,297 |
| Other financing sources (uses): | | | | |
| Proceeds from Sale of Real Estate | - | - | 185,274 | 185,274 |
| Interfund Transfers In | 389,798 | 389,798 | 967,202 | 577,404 |
| Interfund Transfers Out | - | - | (1,713,295) | (1,713,295) |
| Total other financing sources (uses) | 389,798 | 389,798 | (560,819) | (950,617) |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | \$ (395,973) | \$ (395,973) | (1,134,293) | \$ (738,320) |
| Fund balances-beginning of year | | | 1,643,272 | |
| Fund balances- end of year | | | \$ 508,979 | |

CITY OF SERGEANT BLUFF, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Agency Fund, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund or fund type. These 9 functions are: public safety, public works, community and economic development, health and social services, culture and recreation, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, there were no budget amendments..

During the year ended June 30, 2004, disbursements in the public safety, community and economic development and debt service functions exceeded the amounts budgeted.

The following schedule demonstrates the City's legal compliance to the budget that includes the component unit.

| <u>Program</u> | <u>Final Budget</u> | <u>Actual (Cash Basis)</u> | <u>Variance Favorable (Unfavorable)</u> |
|----------------------------------|-------------------------|--------------------------------|---|
| Public Safety | \$ 824,588 | \$ 888,380 | \$ (63,792) |
| Public Works | 322,863 | 237,822 | 85,041 |
| Culture & Recreation | 385,650 | 269,538 | 116,112 |
| Community & Economic Development | 50,130 | 74,796 | (24,666) |
| General Government | 369,831 | 291,034 | 78,797 |
| Debt Service | 347,994 | 493,783 | (145,789) |
| Capital Projects | 1,025,000 | 576,220 | 448,780 |
| Business Type/Enterprise | 2,963,269 | 2,210,512 | 752,757 |
| Total | <u>\$ 6,289,325</u> | <u>\$ 5,042,085</u> | <u>\$ 1,247,240</u> |

As noted previously, the actual results of operations are presented in accordance with generally accepted accounting principles which differ in certain respects from those practices used in the preparation of the 2003-04 budget. For purposes of preparing the budget comparison above, the actual expenses have been adjusted to the cash basis which is consistent with the City's budgeted expenditures/expenses. The adjustments required to convert the expenses to cash basis at the end of the year are as follows:

CITY OF SERGEANT BLUFF, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

| | Governmental Fund Types | | |
|--------------------------------|--------------------------------|----------------------------|-------------------------------|
| | | General | |
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 840,743 | \$ 133,805 | \$ 974,548 |
| Expenditures | 1,414,217 | 147,635 | 1,561,852 |
| Net | (573,474) | (13,830) | (587,304) |
| Other Financing Sources (Uses) | (560,819) | 41,959 | (518,860) |
| Beginning Fund Balance | 1,643,272 | (25,895) | 1,617,377 |
| Ending Fund Balance | <u>\$ 508,979</u> | <u>\$ 2,234</u> | <u>\$ 511,213</u> |

| | Governmental Fund Types | | |
|--------------------------------|--------------------------------|----------------------------|-------------------------------|
| | | Debt Service | |
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 331,456 | \$ 65,658 | \$ 397,114 |
| Expenditures | 493,783 | 3,896 | 497,679 |
| Net | (162,327) | 61,762 | (100,565) |
| Other Financing Sources (Uses) | 288,353 | (41,959) | 246,394 |
| Beginning Fund Balance | (126,026) | 993 | (125,033) |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ 20,796</u> | <u>\$ 20,796</u> |

| | Governmental Fund Types | | |
|--------------------------------|--------------------------------|----------------------------|-------------------------------|
| | | Capital Project | |
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 43,689 | \$ 71 | \$ 43,760 |
| Expenditures | 576,220 | 42,036 | 618,256 |
| Net | (532,531) | (41,965) | (574,496) |
| Other Financing Sources (Uses) | 2,109,629 | - | 2,109,629 |
| Beginning Fund Balance | (891,869) | 26,915 | (864,954) |
| Ending Fund Balance | <u>\$ 685,229</u> | <u>\$ (15,050)</u> | <u>\$ 670,179</u> |

| | Governmental Fund Types | | |
|--------------------------------|--------------------------------|------------------------------|-------------------------------|
| | | Nonmajor Governmental | |
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 732,813 | \$ 2,036 | \$ 734,849 |
| Expenditures | 347,353 | (882) | 346,471 |
| Net | 385,460 | 2,918 | 388,378 |
| Other Financing Sources (Uses) | (482,187) | - | (482,187) |
| Beginning Fund Balance | 541,823 | 62,691 | 604,514 |
| Ending Fund Balance | <u>\$ 445,096</u> | <u>\$ 65,609</u> | <u>\$ 510,705</u> |

CITY OF SERGEANT BLUFF, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

| | Business Type Activity | | |
|--------------------------------|--------------------------------|----------------------------|----------------------|
| | <u>Electric Utility</u> | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 1,890,999 | \$ 6,295 | \$ 1,897,294 |
| Expenses | 1,394,508 | (57,610) | 1,336,898 |
| Net | 496,491 | 63,905 | 560,396 |
| Other Financing Sources (Uses) | (307,851) | 61,876 | (245,975) |
| Beginning Fund Balance | 1,156,250 | 1,271,322 | 2,427,572 |
| Ending Fund Balance | <u>\$ 1,344,890</u> | <u>\$ 1,397,103</u> | <u>\$ 2,741,993</u> |

| | Business Type Activity | | |
|--------------------------------|-------------------------------|----------------------------|----------------------|
| | <u>Water Utility</u> | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 503,410 | \$ (6,909) | \$ 496,501 |
| Expenses | 312,751 | 40,845 | 353,596 |
| Net | 190,659 | (47,754) | 142,905 |
| Other Financing Sources (Uses) | (121,986) | 47 | (121,939) |
| Beginning Fund Balance | 219,157 | 3,181,229 | 3,400,386 |
| Ending Fund Balance | <u>\$ 287,830</u> | <u>\$ 3,133,522</u> | <u>\$ 3,421,352</u> |

| | Business Type Activity | | |
|--------------------------------|-------------------------------|----------------------------|----------------------|
| | <u>Sewer Utility</u> | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 468,736 | \$ (3,571) | \$ 465,165 |
| Expenses | 271,691 | 50,027 | 321,718 |
| Net | 197,045 | (53,598) | 143,447 |
| Other Financing Sources (Uses) | (203,770) | 32 | (203,738) |
| Beginning Fund Balance | 455,616 | 2,211,241 | 2,666,857 |
| Ending Fund Balance | <u>\$ 448,891</u> | <u>\$ 2,157,675</u> | <u>\$ 2,606,566</u> |

| | Business Type Activity | | |
|--------------------------------|-----------------------------------|----------------------------|----------------------|
| | <u>Solid Waste Utility</u> | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 179,213 | \$ 838 | \$ 180,051 |
| Expenses | 159,705 | 611 | 160,316 |
| Net | 19,508 | 227 | 19,735 |
| Other Financing Sources (Uses) | - | - | - |
| Beginning Net Assets | 1,106 | 24,903 | 26,009 |
| Ending Net Assets | <u>\$ 20,614</u> | <u>\$ 25,130</u> | <u>\$ 45,744</u> |

CITY OF SERGEANT BLUFF, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

| | Business Type Activity | | |
|--------------------------------|-----------------------------------|---------------------------------------|---------------------------------|
| | <u>Storm Water Utility</u> | | |
| | <u>Cash Basis</u> | <u>Accrual Adjustments</u> | <u>Accrual Basis</u> |
| Revenues | \$ 13,750 | \$ 5,023 | \$ 18,773 |
| Expenses | 71,857 | (54,687) | 17,170 |
| Net | (58,107) | 59,710 | 1,603 |
| Other Financing Sources (Uses) | 62,309 | (54,874) | 7,435 |
| Beginning Net Assets | (4,202) | - | (4,202) |
| Ending Net Assets | <u>\$ -</u> | <u>\$ 4,836</u> | <u>\$ 4,836</u> |

CITY OF SERGEANT BLUFF, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
JUNE 30, 2004

| | Special Revenue Funds | | | Total Governmental Nonmajor Funds |
|--|-----------------------|------------------------------|---------------------------|--|
| | Road Use Tax | Local Option Sales Tax | Volunteer Fire Dept | |
| Assets | | | | |
| Cash and Pooled Investments | \$ 258,000 | \$ 59,004 | \$ 128,092 | \$ 445,096 |
| Due from Other Governmental Agencies | 22,007 | 45,527 | - | 67,534 |
| Inventories | 6,650 | - | - | 6,650 |
| Total Assets | 286,657 | 104,531 | 128,092 | 519,280 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts Payable | 5,254 | - | - | 5,254 |
| Accrued Wages and Compensated Absences | 3,321 | - | - | 3,321 |
| Total Liabilities | 8,575 | - | - | 8,575 |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Inventories | 6,650 | - | - | 6,650 |
| Unreserved | 271,432 | 104,531 | 128,092 | 504,055 |
| Total Fund Balances | 278,082 | 104,531 | 128,092 | 510,705 |
| Total Liabilities and Equity | \$ 286,657 | \$ 104,531 | \$ 128,092 | \$ 519,280 |

CITY OF SERGEANT BLUFF, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
JUNE 30, 2004

| | Special Revenue Funds | | | Total Governmental Nonmajor Funds |
|---|-----------------------|------------------------------|---------------------------|--|
| | Road Use Tax | Local Option Sales Tax | Volunteer Fire Dept | |
| Revenue: | | | | |
| Intergovernmental Revenue | \$ 278,270 | \$ 308,175 | \$ 9,757 | \$ 596,202 |
| Charges for Services | - | - | 69,454 | 69,454 |
| Contributions | - | - | 33,238 | 33,238 |
| Interest | - | - | 2,765 | 2,765 |
| Miscellaneous | 24,449 | - | 8,741 | 33,190 |
| Total Revenue | 302,719 | 308,175 | 123,955 | 734,849 |
| Expenditures: | | | | |
| Public Safety | - | - | 98,331 | 98,331 |
| Public Works | 236,940 | - | - | 236,940 |
| General Government | - | 11,200 | - | 11,200 |
| Total Expenditures | 236,940 | 11,200 | 98,331 | 346,471 |
| Excess (deficiency) of revenues over expenditures | 65,779 | 296,975 | 25,624 | 388,378 |
| Other financing sources (uses): | | | | |
| Transfers Out | (229,187) | (253,000) | - | (482,187) |
| Total other financing sources (uses) | (229,187) | (253,000) | - | (482,187) |
| Net Change in Fund Balance | (163,408) | 43,975 | 25,624 | (93,809) |
| Fund balances - beginning of year | 441,490 | 60,556 | 102,468 | 604,514 |
| Fund balances - end of year | \$ 278,082 | \$ 104,531 | \$ 128,092 | \$ 510,705 |



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

We have audited the financial statements of the City of Sergeant Bluff, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Sergeant Bluff, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Sergeant Bluff, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sergeant Bluff, Iowa, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sergeant Bluff, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 13, 2005
Sioux City, Iowa

King, Reinsch, Prosser & Co., L.L.P.

CITY OF SERGEANT BLUFF
Schedule Of Findings
Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or irregularities. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, one individual has control over collecting, depositing, journalizing and posting receipts.

Recommendation - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Council should remain actively involved in the financial affairs of the City to provide oversight and review functions.

Response - The City understands the nature of the weakness and the necessity for the Council to provide oversight and review functions. The City will review its procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

I-B-04 Records of Accounts - The fire department maintain some accounting records and bank balances pertaining to the operations of the fire service. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will endeavor to obtain at least a quarterly report of receipts and disbursements from the fire department and include such transactions in the City's ledger.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF
Schedule Of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the public safety, community and economic development, and debt service functional areas. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under annual or continuing appropriation.

Recommendation - The budget should have been amended timely in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - No disbursements were noted that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions - The City had business transactions of \$501 for catering by Aggies, which is owned by Cathy Bishop, a City official, during the year ended June 30, 2004. In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the council member did not exceed \$1,500 during the fiscal year and do not appear to represent a conflict of interest.

II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the publication did not include listing of claims and a summary of all receipts. The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

CITY OF SERGEANT BLUFF
Schedule Of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting (Continued):

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes, receipts, and annual individual salaries as required.

Response - We will comply with the Code requirements.

Conclusion - Response accepted.

II-H-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-I-04 Payroll - We noted during our sample of payroll transactions that there was a miscalculation in an employee's pay raise resulting in an overpayment.

Recommendation - The City should establish policies and procedures for management's review of employee wages.

Response - We will review its policies and procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

II-J-04 Disbursements - We noted during our sample of disbursements transactions that invoices were misplaced and could not be located; however, the vendor was able to provide duplicate invoices for examination. We also noted that checks over \$500 were signed by one individual.

Recommendation - The City has established policies and procedures that require supporting documentation for disbursements and that all checks over \$500 except for payroll are required to have two signatures. These internal control procedures are established to reduce the risk of misstatement that could be caused by error or fraud and we recommend that the City following these internal control procedures.

Response - We will adhere to our policies and procedures as established.

Conclusion - Response accepted.